Quest Diagnostics Incorporated
Conference Call Prepared comments
For the Quarter Ended March 31, 2011

Conference operator: Welcome to the Quest Diagnostics First Quarter conference call. At the request of the company, this call is being recorded. The entire contents of the call, including the presentation and question and answer session that will follow, are the copyrighted property of Quest Diagnostics with all rights reserved. Any redistribution, retransmission or rebroadcast of this call in any form without the express written consent of Quest Diagnostics is strictly prohibited. Now I'd like to introduce Kathleen Valentine, Director of Investor Relations for Quest Diagnostics. Go ahead, please.

Kathleen Valentine: Thank you and good morning. I am here with Surya Mohapatra, our chairman and chief executive officer, and Bob Hagemann, our chief financial officer.

During this call, we may make forward-looking statements with respect to both Quest Diagnostics and Celera Corporation. Actual results may differ materially from those projected. Risks and uncertainties that may affect Quest Diagnostics' future results include, but are not limited to, those described in Quest Diagnostics' 2010 Annual Report on Form 10-K and Current Reports on Form 8-K.

In connection with Quest Diagnostics' tender offer for the common stock of Celera Corporation, Quest Diagnostics and its subsidiary have filed with the SEC a tender offer statement on Schedule TO, including the offer to purchase and related documents. Celera has filed with the SEC a tender offer solicitation/recommendation statement on Schedule 14D-9. You are strongly advised to read these documents carefully, because they will contain important information. Those materials and all other documents filed by Quest Diagnostics and Celera with the SEC will be available at no charge on the SEC's website at www.sec.gov.

A copy of our earnings press release is available, and the text of our prepared remarks available in the Investor Relations "quarterly updates" section of our website at www.questdiagnostics.com.

A PowerPoint presentation and spreadsheet with our results and supplemental analysis are also available on the website.

Now, here is Surya Mohapatra.

Surya Mohapatra: Thank you, Kathleen.

This was an important quarter for Quest Diagnostics.

We completed our acquisition of Athena Diagnostics, and established the leading position in the neurology diagnostics market. We also announced our proposed acquisition of Celera to further strengthen our leadership position in cardiovascular testing as well as molecular diagnostics products and discovery. These transactions position us well for the future.

In this quarter, we returned $835 million dollars to shareholders through share buybacks, immediately enhancing shareholder value. Our testing volume continued to improve, and we increased revenues. Our earnings were down, and we took actions to reduce our cost structure accordingly.

During the first quarter:

- Revenues grew 1% to $1.8 billion dollars on 2% volume growth;
- Adjusted earnings per share were one dollar; and
- Cash flow was $161 million dollars.

I will update you on our progress after Bob discusses the financial results. Bob?

***Bob Hagemann*:** Thanks, Surya.

Revenues for the quarter were $1.8 billion, about 1% above the prior year; and adjusted earnings per share was $1.00, compared to $0.99 in the prior year. "Adjusted" 2011 earnings per share exclude $.14 per share associated with the following items:

- 5 cents charge for workforce reductions
- 2 cents for costs associated with the Athena and Celera transactions
- 7 cents impact of severe winter storms.

Our clinical testing revenues, which account for over 90% of our total revenues, were slightly above the prior year level, by .3%.

Volume in the quarter was 2% above the prior year, and reflects the continued and steady improvement we have seen over the last several quarters. There are two important dynamics to understand relative to our volumes. First, due to the number of business days in the quarter, we estimate the year-over-year comparisons benefited by ~ 1%. Secondly, while we experienced severe weather last year in the first quarter which reduced volumes by an estimated 1.1%, this year's storms had an even greater impact, affecting volumes by an estimated 1.4%. As such, weather unfavorably impacted the year-over-year comparisons by .3%. After considering these two items, the underlying volume grew an estimated 1.3% versus the prior year, and reflects continued improvement.

Drugs-of-abuse testing volumes have continued to rebound and grew about 11% in the quarter, and contributed modestly to the improved volume trend.

Revenue per requisition was 1.7% below the prior year, and a little over 1% below last year's fourth quarter.

While year-over-year revenue per requisition continues to benefit from an increased mix of gene-based and esoteric testing and increases in the number of tests ordered per requisition, this benefit continues to be offset by some business and payer mix changes, the latest Medicare fee decrease of 1.75% which went into effect January 1, and pricing changes in connection with several large contract extensions executed in the first half of last year. The business and payer mix changes, which continue to pressure revenue/requisition, include a further rebound in lower priced drugs-of-abuse testing, and weakness in our higher priced anatomic pathology testing.

Revenue in our non-clinical testing businesses, which include risk assessment, clinical trials testing, point of care testing and healthcare IT, grew 7% for the quarter versus the prior year.

"Adjusted" operating income as a percentage of revenues was 16.3%, compared to 18.1% in the prior year. The special items as detailed in footnote 2 to the earnings release, reduced the operating income percentage by 1.6% in each year. Having adjusted operating income in the first quarter that is below the prior year level is consistent with what we expected in our full year estimate, which contemplates improvement in the later part of the year.

In the quarter, we took further actions to reduce our cost structure, resulting in a charge for workforce reductions. The benefit of these actions will show up in future quarters. As previously shared with you, we have also made recent investments in sales and service which are temporarily pressuring margins, but which we expect over the longer term will result in accelerated revenue growth and a return to margin expansion.

We continued to see solid performance in our billing and collection metrics. Bad debt expense as a percentage of revenues was 4.2% in the quarter, comparable to a year ago. DSOs were 44 days, unchanged from year end. The temporary hold on MediCal billings has added about 1.5 days to our DSOs.

Cash from operations, which is generally lowest in the first quarter of the year, was $161 million, and compares to $239 million in the first quarter of last year. The difference is principally due to a larger increase in accounts receivable compared to the prior year, and the timing of interest payments.

Capital expenditures were $39 million in the quarter, compared to $40 million a year ago.

Over the last few months we have deployed, or announced plans to deploy, a significant amount of capital to drive growth in revenues and EPS. In February we repurchased 15.4 million shares from GSK for $835 million, and as a result increased EPS guidance by 15 cents/share.

In the quarter we announced agreements to acquire Athena and Celera, committing net capital of about $1 billion. The Athena transaction closed in April, and we expect the Celera transaction to close later this quarter. Each acquisition is expected to contribute about 1% to revenue growth this year and, excluding charges associated with the transactions, are not expected to materially impact our EPS.

These acquisitions will bring us unique capabilities in key areas of discovery, development and licensing; proprietary test offerings; and specialty sales capabilities, which we expect will be important drivers of our future revenue and earnings growth.

The permanent financing to fund our recent capital deployments was raised through a very successful $1.25 billion bond offering last month at attractive rates, while maintaining our investment grade credit ratings.

Before I discuss guidance, I would like to note that we have no further update on the status of our litigation with respect to the California MediCal program, other than to indicate we have extended through May 2nd our interim agreement with the state, which provides for the temporary suspension of MediCal billing.

Turning to guidance: while we do not provide quarterly guidance, as we have previously indicated, in considering how 2011 will unfold, you should generally think about our earnings comparisons to 2010 being more favorable in the back half of the year as the year-over-year comparisons become less challenging.

We expect results from continuing operations, before future special items, as follows:

Revenue to grow approximately 2%, reflecting a 1% increase from the impact of the Athena acquisition.

- Earnings per diluted share to remain between $4.25 and $4.45 on an adjusted basis and be between $4.11 and $4.31 on a reported basis;
- Operating income as a percentage of revenues to be between 17.5% and 18% on an adjusted basis and between 17 and 17.5% on a reported basis;
- Cash from operations of approximately $1.1 billion ; and

Capital expenditures to approximate $220 million.

Our outlook on an adjusted basis excludes the first quarter impact of severe weather, workforce reductions and costs associated with the Athena Diagnostics and Celera transactions.

Footnotes 2 and 6 to the earnings release reconcile the “adjusted” financial measures to the corresponding GAAP measures.

Now I’ll turn it back to Surya.

Surya Mohapatra: Thanks, Bob.

I want to update you briefly on the progress we are making on some of the initiatives we have shared with you previously.

As you have heard, we are seeing steady improvement in the volume trend. Over the past year, reported clinical testing volume growth has gone from <u>negative</u> 2.6% in the first quarter of 2010 to 2% <u>positive</u> growth this quarter. We are making progress, although there is much more work to be done.

- We continued to focus on promoting our genetic, esoteric and anatomic pathology tests.
    - Demand for our esoteric and gene-based testing continued to grow at a faster rate than routine testing. The growth was driven largely by Vitamin D testing and testing for blood cancers, particularly our Leumeta family of blood tests, both of which had double digit volume growth in the quarter.

  - We have enhanced our service to hospital customers. We have reduced turnaround time for esoteric testing and delivered commercial excellence. This has helped drive growth in our hospital business.
  - Anatomic pathology testing continues to be impacted by physician in-sourcing. During the quarter, we saw a moderation of the downward trend.
  - Athena Diagnostics became part of Quest Diagnostics after the end of the quarter, establishing us as the clear leader in the rapidly emerging neurology testing market.
    - Patients and physicians will realize significant benefits from the transaction, including greater convenience and access to a broad range of innovative tests for neurological disorders.
  - We announced our proposed acquisition of Celera to significantly strengthen our leadership position in the discovery and development of molecular diagnostic products and services.
    - We will gain immediate access to Berkeley HeartLab, Celera Molecular Products and a strong pipeline of biomarkers for the future.
    - We are pleased that the Hart-Scott-Rodino waiting period has expired, and that we resolved a number of the shareholder lawsuits related to the transaction. We look forward to completing our $8 per share all cash tender offer and adding Celera to the Quest Diagnostics family.

- With reference to sales, we are seeing steady improvement in our volume trends. Our sales organization continues to enhance its effectiveness, and, as we indicated previously, we have completed the expansion of our sales force.
- As regards to costs, in the first quarter, we took actions to reduce expenses, which we are closely managing to improve operational efficiencies, while maintaining a superior customer experience.
- With regard to capital deployment, we have taken strong actions to demonstrate our commitment to use our cash to drive growth and increase shareholder value.

We are building our reputation in the marketplace. We were recently honored with a prestigious Edison Award for innovation for our Simplexa molecular diagnostic testing platform on the 3M Integrated Cycler.

We also are proud to be one of Fortune’s “World’s Most Admired Companies” for the fourth consecutive year.

In closing:

- Trends in testing volume continued to improve, and we increased revenues;
- We took steps to reduce costs and drive efficiencies;
- We are on track to meet our expectations for the year; and
- The Athena and Celera transactions enhance our position for the future, and we are excited about the opportunities.